

Message Text

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C O N F I D E N T I A L SECTION 1 OF 2 EC BRUSSELS 6135

E.O. 11652: ADS "DECLASSIFIED ON JANUARY 1, 1978"

TAGS: EFIN, EEC

SUBJECT: REFORM OF THE INTERNATIONAL MONETARY SYSTEM--EC

MONETARY COMMITTEE REVIEWS THE MAIN ISSUES

REF: A) EC BRUSSELS 5530

B) EC BRUSSELS 4643

1. SUMMARY: THE EC MONETARY COMMITTEE HAS SET FORTH THE POINTS OF AGREEMENT AND DIFFERENCE AMONG THE MEMBER STATES ON THE MAIN AMENDMENTS TO THE IMF STATUTES. THE COMMITTEE PROPOSES AN ARRANGEMENT FOR GOLD TRANSACTIONS AMONG MONETARY AUTHORITIES. MEMBER STATES DIFFER, HOWEVER, OVER THE DURATION OF THIS ARRANGEMENT. MEMBER STATES ALSO DISAGREE ON A FUTURE REGIME FOR EXCHANGE RATE PARITIES. MOST FAVOR A FLEXIBLE APPROACH BUT FRANCE PROPOSES A RESTRICTIVE SET OF OPTIONS. THE COMMITTEE SUGGESTS THAT US AUTHORITIES BE ASSURED THAT THE EC FAVORS PUTTING INTO FORCE THE REALLOCATION OF VOTING RIGHTS AT THE SAME TIME THAT THE OTHER AMENDMENTS ARE ADOPTED. THE COMMITTEE'S REPORT WILL BE TAKEN UP BY THE EC FINANCE COUNCIL ON JULY 10. END SUMMARY.

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2. THE EC FINANCE COUNCIL ON JUNE 16 ASKED THE

MONETARY COMMITTEE TO DISCUSS AGAIN THE MEMBER STATES' POSITIONS TOWARD THE PROPOSED AMENDMENTS TO THE IMF STATUTES. THE COMMITTEE WAS ASKED TO DRAW UP A REPORT WHICH WOULD SERVE AS A BASIS FOR THE COUNCIL'S DISCUSSION OF THIS ISSUE ON JULY 10. THE MONETARY COMMITTEE MET AT THE DEPUTIES' LEVEL ON JUNE 25-26 AND AT THE PRINCIPAL' LEVEL ON JUNE 27. THE MISSION HAS OBTAINED A COPY IN FRENCH OF THE COMMITTEE'S CONFIDENTIAL REPORT TO THE COUNCIL. COPIES OF THIS REPORT ARE BEING SENT TO INTERESTED WASHINGTON AGENCIES. THE REST OF THIS MESSAGE IS A SUMMARY OF THE REPORT WITH QUOTES FROM AN INFORMAL MISSION TRANSLATION. (MEMBER STATE OBJECTIONS TO PARTICULAR POINTS IN THE REPORT ARE NOTED BELOW.)

3. IMF GOLD: THE IMF SHOULD RETAIN TWO-THIRDS OF ITS GOLD STOCK. (A VOTING MAJORITY OF 85 PERCENT SHOULD DECIDE HOW THE FUND SHOULD EVENTUALLY DISPOSE OF THIS GOLD. THE IMF MAY EVENTUALLY EITHER RETURN IT TO ITS MEMBERS OR SELL IT.) ONE-SIXTH (ABOUT 25 MILLION OUNCES) OF THE CURRENT GOLD STOCK COULD BE RETURNED TO IMF MEMBERS IN PROPORTION TO THEIR QUOTAS AS OF JULY 1975. EACH RECIPIENT WOULD REIMBURSE THE IMF IN ITS NATIONAL CURRENCY AT THE OFFICIAL VALUE OF

GOLD IN SDRS. THE FUND WOULD IMPOSE NO OTHER CONDITION ON THE RETURN OF GOLD. ONE-SIXTH WOULD BE SOLD IN THE MARKET OR TO MEMBERS AT THE HIGHEST POSSIBLE PRICE. THE PROCEED WOULD GO TO THE IMF'S GENERAL ACCOUNT. THE SURPLUS COMING FROM THIS SALE COULD EVENTUALLY BE USED TO HELP THE LDCS, ESPECIALLY THE MSAS. THERE IS SOME ROOM FOR NEGOTIATING THE ABOVE PROVISIONS. THE EC ADHERES TO THE PRINCIPLE, HOWEVER, THAT THE AMOUNTS RETURNED TO MEMBERS AND THE AMOUNTS SOLD AT MARKET PRICES SHOULD BE EQUAL.

4. GOLD TRANSACTIONS AMONG MONETARY AUTHORITIES: THE CONFIDENTIAL

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EC MEMBER STATES ARE READY TO UNDERTAKE AN ARRANGEMENT CONCERNING GOLD TRANSACTIONS AMONG MONETARY AUTHORITIES. SUCH AN ARRANGEMENT SHOULD CONFORM TO THE SPIRIT OF ZEIST. INDIVIDUAL COUNTRIES' TRANSACTIONS SHOULD BE SUBJECT TO THE FOLLOWING CONDITIONS: A) SUCH TRANSACTIONS SHOULD NOT HAVE THE GOAL OF ESTABLISHING A DE FACTO FIXED PRICE FOR GOLD; B) GOLD PURCHASES SHOULD NOT RESULT IN AN INCREASE IN THE COMBINED GOLD

STOCKS OF THE IMF MEMBERS AND THE IMF, ABOVE THE LEVEL AS OF MAY 1, 1975; AND C) THIS ARRANGEMENT WILL BE REVIEWED IN TWO YEARS OR AT THE TIME IT APPEARS THAT, CONTRARY TO THE AGREED INTENT, GOLD TRANSACTIONS HAVE IN FACT ESTABLISHED A FIXED PRICE FOR GOLD. (CERTAIN EC MEMBER STATES CAN ONLY ACCEPT THIS ARRANGEMENT IF IT IS SUBMITTED TO "PERMANENT REVISION") APPARENTLY AT THE END OF TWO YEARS).

5. THE ARRANGEMENT ON GOLD TRANSACTIONS SHOULD BE INCLUDED IN THE IMF STATUTES AS FOLLOWS: A) BY MAINTAINING MEMBERS' OBLIGATIONS UNDER ARTICLE VIII TO INFORM THE IMF OF THEIR GOLD HOLDINGS; B) BY ADDING A CLAUSE TO THE GENERAL POLICY ON GOLD.

6. RESERVE CURRENCIES: THE EC FAVORS THE EVENTUAL ELIMINATION OF RESERVE CURRENCIES. IT CONSEQUENTLY WANTS TO INCLUDE THE FOLLOWING STATEMENT IN THE INTERIM COMMITTEE'S CONCLUSIONS: "EACH IMF MEMBER AGREES TO WORK WITH THE FUND AND ITS MEMBERS TO CONTRIBUTE TO THE ADOPTION OF THE SDR AS THE PRINCIPAL RESERVE ASSET AND TO THE DIMINUTION OF THE ROLE OF GOLD AND OF RESERVE CURRENCIES IN THE INTERNATIONAL MONETARY SYSTEM".

7. EXCHANGE RATE SYSTEM: THE EC WANTS TO INSERT IN THE IMF STATUTES A STATEMENT ALONG THE LINES OF THE INTERIM COMMITTEE'S RECENT COMMUNIQUE: "THE ULTIMATE OBJECTIVE IS A SYSTEM OF STABLE BUT ADJUSTABLE PARITIES. FLOATING OF CURRENCIES IN SPECIAL CIRCUMSTANCES IS TO BE ACCORDANCE WITH APPROPRIATE RULES AND IMF SURVEILLANCE." THERE ARE TWO MAIN DIFFICULTIES IN APPLYING THIS OBJECTIVE: 1) THE EXTENT TO

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WHICH A MEMBER IS OBLIGATED TO ADHERE TO THE SYSTEM ONCE IT HAS DECLARED A NEW PARITY FOR ITS

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CURRENCY; AND 2) THE DEGREE TO WHICH CONSTRAINTS MAY BE APPLIED TO A MEMBER WHO HAS ADOPTED A PARITY AND SUBSEQUENTLY WANTS TO FLOAT ITS CURRENCY. THE MONETARY COMMITTEE PUTS FORWARD THREE ALTERNATIVES FOR EACH OF THESE DIFFICULTIES:

A. ADHERENCE TO THE SYSTEM: 1) A MEMBER MAY PROPOSE A PARITY AT ANY TIME. 2) A MEMBER WILL PROPOSE A PARITY AFTER A REASONABLE PERIOD UNLESS IT DECLARES THAT THERE ARE CIRCUMSTANCES WHICH DO NOT PERMIT IT TO ESTABLISH A PARITY. THE IMF WILL NOT VERIFY THIS DECLARATION. NEVERTHELESS, THE MEMBER WILL REMAIN IN REGULAR CONSULTATION WITH THE IMF AND WILL DIRECT ITS EXCHANGE RATE POLICY TO CONFORM WITH THE GUIDELINES FOR FLOATING WHICH THE IMF WILL SET FORTH. 3) A MEMBER WILL PROPOSE A PARITY WITHIN A REASONABLE PERIOD UNLESS THE MEMBER INFORMS THE FUND, AND THE LATTER ACCEPTS, THAT THERE ARE SPECIAL CIRCUMSTANCES PREVENTING THE ESTABLISHMENT OF A PARITY.

B. TEMPORARY FLOATING: 1) A MEMBER'S PARITY WILL CEASE TO APPLY IF IT INFORMS THE FUND THAT IT HAS ABANDONED ITS PARITY. 2) A MEMBER'S PARITY WILL CEASE TO APPLY IF A MEMBER DECLARES TO THE FUND THAT

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CIRCUMSTANCES NO LONGER PERMIT IT TO ADHERE TO ITS PARITY. THE FUND WILL NOT VERIFY THIS DECLARATION. A MEMBER WHICH ABANDONS ITS PARITY WILL IMMEDIATELY ENTER INTO CONSULTATION WITH THE IMF AND WILL DIRECT ITS EXCHANGE RATE POLICY TO CONFROM WITH THE GUIDELINES FOR FLOATING WHICH THE FUND WILL INDICATE. 3) A MEMBER'S PARITY WILL CEASE TO APPLY IF THE MEMBER IN-

FORMS THE IMF OF ITS INTENTION TO ABANDON IT AND IF THE FUND AUTHORIZES SUCH ABANDONMENT, UNDER CONDITIONS WHICH IT JUDGES APPROPRIATE.

C. A LARGE MAJORITY OF THE EC MEMBERS COULD ACCEPT THE SECOND ALTERNATIVES IN 7A AND 7B ABOVE. THE MONETARY COMMITTEE SUGGESTS THAT THESE ALTERNATIVES MIGHT BE USED AS THE BASIS FOR A COMMON POSITION. (COMMENT: FRANCE, HOWEVER, PREFERS THE MORE RESTRICTIVE THIRD ALTERNATIVES IN EACH OF THESE PARAGRAPHS. END COMMENT).

8. SEVERAL EC MEMBER STATES HAVE SUGGESTED VARIATIONS ON ALTERNATIVES 2 AND 3 FOR TEMPORARY FLOATING. THE FINAL DECISION TO FLOAT BELONGS TO THE IMF MEMBER BUT SOME MEMBER STATES BELIEVE MORAL CONSTRAINT SHOULD BE APPLIED. THE REPORT PROPOSES SEVERAL POSSIBLE CONSTRAINTS WHICH ARE SET FORTH IN ASCENDING ORDER OF RIGOR:

A) A MEMBER MUST JUSTIFY ITS REQUEST TO FLOAT AND THE FUND GIVES THE MEMBER "THE BENEFIT OF DOUBT"; B) A MEMBER MUST JUSTIFY ITS REQUEST, AND THE AUTHORIZATION IS ACCOMPANIED BY SPECIAL GUIDELINES DEFINED BY THE FUND ON A CASE-BY-CASE BASIS; C) A MEMBER OUGHT TO JUSTIFY ITS REQUEST; BEFORE GRANTING AUTHORIZATION, THE FUND MAY ASK A MEMBER TO RECONSIDER ITS REQUEST WITHIN A CERTAIN PERIOD; THE MEMBER, HOWEVER, MAY CONFIRM ITS INTENTION TO FLOAT; D) A MEMBER MUST JUSTIFY ITS REQUEST; THE FUND'S AUTHORIZATION IS JUST TEMPORARY AND AFTER A FIXED PERIOD A MEMBER MUST PUT FORWARD ANOTHER REQUEST TO FLOAT; E) A MEMBER MUST JUSTIFY ITS REQUEST; THE IMF'S AUTHORIZATION IS PROVISIONAL AND REVOCABLE AT ANY TIME; AND F) A MEMBER MUST JUSTIFY ITS REQUEST; THE IMF'S AUTHORIZATION IS GIVEN BY A MAJORITY OF (85) (80, (70) OR (50) PERCENT.

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9. OTHER EC MEMBER STATES HAVE SUGGESTED AN INTERMEDIATE POSITION BETWEEN THE FIRST AND SECOND ALTERNATIVES MENTIONED IN 7(B) ABOVE. THEY PROPOSE THAT A MEMBER MAY INDICATE A PARITY AT ANY TIME. IF ONE IS NOT INDICATED, THE MEMBER WILL MAINTAIN REGULAR CONSULTATIONS WITH THE FUND AND WILL DIRECT ITS EXCHANGE RATE POLICY SO AS TO CONFORM TO THE GUIDELINES FOR FLOATING WHICH THE FUND WILL INDICATE.

10. QUOTA ALLOCATION: THE MONETARY COMMITTEE DID NOT EXAMINE IN DETAIL THE VARIOUS FORMULAE FOR IMF QUOTA REALLOCATIONS. THE COMMITTEE SUGGEST THAT THE COMMUNITY OUGHT TO CONTACT US AUTHORITIES. THE

EC SHOULD ASSURE THE US THAT APPROPRIATE STEPS COULD BE TAKEN SO THAT THE NEW US VOTING RIGHTS COMING FROM THE QUOTA REALLOCATION WOULD NOT TAKE FORCE BEFORE THE ADOPTION OF THE OTHER AMENDMENTS TO THE IMF STATUTES.

11. COMMENT: EC COMMISSION OFFICIALS BELIEVE THE MONETARY COMMITTEE'S REPORT REPRESENTS SOME FORWARD PROGRESS IN ADOPTING A COMMON EC POSITION TOWARD THE IMF AMENDMENTS. IT ALSO HELPS TO CLARIFY DIFFERENCES AMONG MEMBER STATES. OFFICIALS HERE BELIEVE THE FINANCE MINISTERS WILL NOT BE ABLE TO RESOLVE THEIR DIFFERENCES ON JULY 10. THEY SAY THE MONETARY COMMITTEE CAN DO LITTLE MORE TO ADOPT A JOINT EC POSITION. THE REMAINING DIFFERENCES WILL HAVE TO BE RESOLVED AT A HIGH POLITICAL LEVEL. END COMMENT.
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